

# Exhibit 1

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended November 30, 2006**

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from** **to**

Commission File Number 1-9466

### Lehman Brothers Holdings Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3216325  
(I.R.S. Employer Identification No.)

745 Seventh Avenue  
New York, New York  
(Address of principal executive offices)

10019  
(Zip Code)

Registrant's telephone number, including area code: (212) 526-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.10 par value	New York Stock Exchange
Depository Shares representing 5.94% Cumulative Preferred Stock, Series C	New York Stock Exchange
Depository Shares representing 5.67% Cumulative Preferred Stock, Series D	New York Stock Exchange
Depository Shares representing 6.50% Cumulative Preferred Stock, Series F	New York Stock Exchange
Depository Shares representing Floating Rate Cumulative Preferred Stock, Series G	New York Stock Exchange
6.375% Trust Preferred Securities, Series K, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
6.375% Trust Preferred Securities, Series L, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
6.00% Trust Preferred Securities, Series M, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
6.24% Trust Preferred Securities, Series N, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
6¼% Exchangeable Notes Due October 15, 2007 (subject to exchange into shares of common stock of General Mills, Inc.)	New York Stock Exchange
2.00% Medium Term Notes, Series H, Due March 3, 2009 Performance Linked to the Common Stock of Morgan Stanley (MS)	American Stock Exchange
Absolute Buffer Notes Due July 29, 2008, Linked to the Dow Jones EURO STOXX50 <sup>SM</sup> Index (SX5E)	American Stock Exchange
Absolute Buffer Notes Due July 7, 2008, Linked to the Dow Jones EURO STOXX 50 <sup>SM</sup> Index (SX5E)	American Stock Exchange
Currency Basket Warrants Expiring February 13, 2008	American Stock Exchange
Dow Jones Industrial Average 112.5% Minimum Redemption PrincipalPlus Stock Upside Note Securities® Due August 5, 2007	American Stock Exchange
Dow Jones Global Titans 50 Index <sup>SM</sup> Stock Upside Note Securities® Due February 9, 2010	American Stock Exchange
Dow Jones Industrial Average Stock Upside Note Securities® Due April 29, 2010	American Stock Exchange
Index-Plus Notes Due December 23, 2009, Performance Linked to the Russell 2000® INDEX (RTY)	American Stock Exchange
Index-Plus Notes Due March 3, 2010, Linked to the S&P 500® Index (SPX)	American Stock Exchange
Index-Plus Notes Due November 15, 2009, Linked to the Dow Jones STOXX 50 <sup>SM</sup> Index (SX5P)	American Stock Exchange
Index-Plus Notes Due September 28, 2009, Performance Linked to S&P 500® Index (SPX)	American Stock Exchange
Japanese Yen Linked Warrants Expiring June 20, 2008	American Stock Exchange
Nasdaq-100® Index Rebound Risk AdjustING Equity Range Securities <sup>SM</sup> Notes Due May 20, 2007	American Stock Exchange
Nasdaq-100® Index Rebound Risk AdjustING Equity Range Securities <sup>SM</sup> Notes Due June 7, 2008	American Stock Exchange
Nikkei 225 <sup>SM</sup> Index Call Warrants Expiring May 8, 2007	American Stock Exchange
Nikkei 225 <sup>SM</sup> Index Stock Upside Note Securities® Due June 10, 2010	American Stock Exchange
S&P 500® Index Callable Stock Upside Note Securities® Due November 6, 2009	American Stock Exchange
S&P 500® Index Stock Upside Note Securities® Due August 5, 2008	American Stock Exchange
S&P 500® Index Stock Upside Note Securities® Due September 27, 2007	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not

Floating rate	28,762
Total U.S. dollar obligations	29,468
Non—U.S. dollar obligations	6,892
	<u>\$ 36,360</u>

The weighted-average effective interest rates after end-user derivative activities on U.S. dollar, non-U.S. dollar, and total borrowings were 5.63%, 3.67%, and 5.34%, respectively, at November 30, 2006. The weighted-average effective interest rates after end-user derivative activities on U.S. dollar, non-U.S. dollar, and total borrowings were 4.64%, 2.61%, and 4.26%, respectively, at November 30, 2005.

### Credit Facilities

We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a \$2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks which expires in February 2009. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. As of November 30, 2006, there were no borrowings against this facility.

### Note 5 Commitments, Contingencies and Guarantees

We guarantee certain long-term borrowings issued by subsidiaries totaling \$21.7 billion and \$14.9 billion at November 30, 2006 and 2005, respectively. In addition, we guarantee certain liquidity facilities and certain subsidiaries' derivative and other obligations. We also guarantee all the obligations of certain subsidiaries and selected obligations of other subsidiaries, which obligations may be included in the amounts discussed above.

### Note 6 Related Party Transactions

In the normal course of business, we engage in various securities trading and financing activities with many of our subsidiaries (the "Related Parties"). Included within non-interest expenses are management fees associated with affiliate services provided, of \$251 million, \$423 million and \$523 million in 2006, 2005 and 2004, respectively. Various charges, such as compensation and benefits, occupancy, administration and computer processing are allocated among the Related Parties, based on specific identification and other allocation methods.

We and our subsidiaries raise money through short- and long-term funding in capital markets, which is used to fund the operations of certain of our wholly-owned subsidiaries. We believe amounts arising through related party transactions, including those allocated expenses referred to above, are reasonable and approximate the amounts that would have been recorded if we operated as an unaffiliated entity.

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## LEHMAN BROTHERS HOLDINGS INC. NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Parent Company Only)

Amounts outstanding to and from Related Parties are reflected in the Statement of Financial Condition as set forth below:

In millions November 30	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Cash on deposit with affiliates	\$ 270	\$ —	\$ 2,034	\$ —
Derivative and other contractual agreements	1,009	12	681	142
Advances from/to subsidiaries	78,047	34,427	45,420	19,767
Securities purchased/sold under agreements to resell/repurchase	17,593	10,962	10,775	7,719
Long-term borrowings	—	722	—	813

Dividends declared to us by our subsidiaries and affiliates were approximately \$3.0 billion, \$2.4 billion and \$2.5 billion in 2006, 2005 and 2004, respectively.



We have completed the appeals process with respect to the 1997 through 2000 IRS examination. Although most issues were settled on a basis acceptable to us, two issues remain unresolved and will carry into litigation with the IRS. Based on the strength of its positions, we have not reserved any part of these issues. The aggregate tax benefits previously recorded with regard to these two issues is approximately \$185 million.

The IRS has recently begun an examination with respect to the 2001 through 2005 tax years. The audit is in its initial stages and no adjustments have been proposed. We believe we are adequately reserved for any issues that may arise from this audit. The two issues from the 1997 through 2000 cycle which we plan to litigate also have an impact on the 2001 through 2005 tax years. The aggregate tax benefit previously recorded with regard to these two issues is approximately \$500 million.

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#### **Note 15 Regulatory Requirements**

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For regulatory purposes, Holdings and its subsidiaries are referred to collectively as a CSE. CSEs are supervised and examined by the SEC, which requires minimum capital standards on a consolidated basis. At November 30, 2007, Holdings was in compliance with the CSE capital requirements and had allowable capital in excess of the minimum capital requirements on a consolidated basis.

In the United States, Lehman Brothers Inc. ("LBI") and Neuberger Berman, LLC ("NB LLC") are registered broker-dealers in the U.S. that are subject to SEC Rule 15c3-1 and Rule 1.17 of the Commodity Futures Trading Commission, which specify minimum net capital requirements for the registrants. LBI and NB LLC have consistently operated with net capital in excess of their respective regulatory capital requirements. LBI has elected to calculate its minimum net capital in accordance with Appendix E of the Net Capital Rule which establishes alternative net capital requirements for broker-dealers that are part of CSEs. In addition to meeting the alternative net capital requirements, LBI is required to maintain tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. LBI is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of November 30, 2007, LBI had net capital of approximately \$2.7 billion, which exceeded the minimum net capital requirement by approximately \$2.1 billion. As of November 30, 2007, NB LLC had net capital of approximately \$188 million, which exceeded the minimum net capital requirement by approximately \$183 million.

Lehman Brothers International (Europe) ("LB Europe"), a United Kingdom registered broker-dealer and subsidiary of Holdings, is subject to the capital requirements of the Financial Services Authority ("FSA") in the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At November 30, 2007, LB Europe's financial resources of approximately \$16.2 billion exceeded the minimum requirement by approximately \$3.8 billion. Lehman Brothers Japan ("LB Japan"), a regulated broker-dealer, is subject to the capital requirements of the Financial Services Agency in Japan and the Bank of Japan. At November 30, 2007, LB Japan had net capital of approximately \$1.3 billion, which was approximately \$748 million in excess of Financial Services Agency in Japan's required level and approximately \$512 million in excess of Bank of Japan's required level.

Lehman Brothers Bank, FSB ("LB Bank"), our thrift subsidiary, is regulated by the Office of Thrift Supervision. Lehman Brothers Commercial Bank ("LB Commercial Bank"), our Utah industrial bank subsidiary is regulated by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation. LB Bank and LB Commercial Bank exceeded all regulatory capital requirements and are considered to be well capitalized as of November 30, 2007. Bankhaus is subject to the capital requirements of the Federal Financial Supervisory Authority of the German Federal Republic. At November 30, 2007, Bankhaus' financial resources exceeded its minimum financial resources requirement.

Certain other subsidiaries are subject to various securities, commodities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2007, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

In addition, our "AAA" rated derivatives subsidiaries, Lehman Brothers Financial Products Inc. ("LBFP") and Lehman Brothers Derivative Products Inc. ("LBDP"), have established certain capital and operating restrictions that are reviewed by various rating agencies. At November 30, 2007, LBFP and LBDP each had capital that exceeded the requirements of the rating agencies.

The regulatory rules referred to above, and certain covenants contained in various debt agreements, may restrict Holdings' ability to withdraw capital from its regulated subsidiaries, which in turn could limit its ability to pay dividends to shareholders. Holdings fully guarantees the payment of all liabilities, obligations and commitments of certain of its subsidiaries.